



Session 21

Direct Loan Policy Update

Questions and Answers

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ADDITIONAL UNSUBSIDIZED ELIGIBILITY

The Q&As in this section cover issues related to the eligibility of dependent undergraduates to receive “additional” unsubsidized loan funds at the higher annual loan limits that apply to independent undergraduates. A dependent undergraduate may receive these additional unsubsidized funds only if a parent is unable to receive a PLUS loan. (For example, the maximum annual loan limit—subsidized and unsubsidized combined—for a dependent first-year undergraduate is \$2,625. However, an independent first-year undergraduate, or a dependent student whose parent is unable to obtain a PLUS loan, is eligible to borrow up to \$4,000 per year in additional unsubsidized funds.) All of the policies discussed in this section apply in both the Direct Loan and FFEL programs.

- 1. We offer only Direct Loan Program loans to our student borrowers, but allow parent borrowers to obtain PLUS loans through either the Direct Loan or FFEL programs. If a parent applies for a PLUS loan through one loan program and is denied, does the parent then have to apply for (and be denied) a PLUS loan through the other loan program before we can give additional unsubsidized funds to the student?**

No. You may award additional unsubsidized loan funds to the student if the parent is denied a PLUS loan in either loan program.

- 2. If one parent applies for a PLUS loan and is rejected due to adverse credit, must the other parent apply before the dependent student is eligible for additional unsubsidized loan amounts?**

No. Only one parent need apply.

- 3. Can we award additional unsubsidized funds to a dependent student if the student’s parent received a PLUS loan at the beginning of the academic year, but is later denied additional PLUS funds because of adverse credit?**

Yes. In this situation, the student may receive additional unsubsidized funds for the same loan period for which the parent received the PLUS loan. The PLUS loan funds that the parent received do not affect the student’s additional unsubsidized loan limit, but you must count the PLUS loan as estimated financial assistance when determining how much the student is eligible to borrow.

- 4. What happens in the reverse situation? Can a parent who was initially denied, but later approved for, a PLUS loan receive PLUS funds if the school has already awarded additional unsubsidized funds to the student for the same loan period?**

Yes. However, you must cancel any disbursements of the additional unsubsidized loan that have not yet been made. Also, you must count any additional unsubsidized funds that have already been disbursed to the student as estimated financial assistance when determining the PLUS loan amount that the parent is eligible to borrow.

- 5. Two divorced parents have agreed to share the cost of paying for their child's education by taking out PLUS loans. Both apply, but one of them is denied because of adverse credit and the other is unwilling to borrow more. Can we award additional unsubsidized funds to the student to make up for the PLUS funds that the one parent had expected to receive?**

No. A dependent student may receive additional unsubsidized loan funds only if a parent is unable to obtain a PLUS loan. In this case, one of the student's parents has been approved for a PLUS loan.

- 6. Is it always necessary for a parent to apply for a PLUS loan and be denied before we can award additional unsubsidized funds to a dependent student?**

No. You may award additional unsubsidized funds if you determine that the student's parent will likely be unable to obtain a PLUS loan because of exceptional circumstances, and the student's family is otherwise unable to provide the student's expected family contribution. In these circumstances, it is not necessary for the parent to apply for a PLUS loan. However, you must document the reason for the exception.

- 7. What are "exceptional circumstances" (see Q&A #6)?**

These include—but are not limited to—circumstances in which the parent is supported only by public assistance or disability benefits, the parent is incarcerated, or the parent has an adverse credit history.

Although adverse credit history may be considered an exceptional circumstance, a school does not determine that a parent has an adverse credit history. Rather, the school makes a determination of exceptional circumstances.

For example, if you can document that a parent is currently 90 or more days delinquent on the repayment of a debt, you may consider this to be an "exceptional circumstance" that would likely preclude the parent from obtaining a PLUS loan based on the PLUS loan eligibility requirements in the Direct Loan and FFEL program regulations (see 34 CFR 685.200(b)(1)(vii)(B) and 34 CFR 682.201(b)(1)(vii)(C)). You must maintain documentation of the exceptional circumstances.

- 8. If a parent has already been approved for a PLUS loan, can we still award additional unsubsidized funds to the student if we determine that there are exceptional circumstances?**

Yes. A parent may be approved for a PLUS loan on the basis of not having an adverse credit history. However, there may be other exceptional circumstances as described above. In this situation, you may cancel the PLUS loan and award unsubsidized funds to the student up to the higher additional unsubsidized limit. Of course, you must document the exceptional circumstances.

- 9. If a dependent student received additional unsubsidized funds during the previous academic year because a parent's PLUS loan application was denied due to adverse credit (or the school determined that there were other exceptional circumstances), may we assume that the adverse credit issues or other circumstances still exist and automatically give additional unsubsidized funds to the student the following year?**

No. You must establish the dependent student's eligibility for additional unsubsidized funds each year. Adverse credit issues or other exceptional circumstances that were present during a prior academic year may no longer exist and therefore must be documented each year.

BORROWER ELIGIBILITY

- 10. If a borrower with a defaulted loan regains Title IV eligibility by making satisfactory repayment arrangements or through consolidation, is the borrower's eligibility retroactive to the beginning of the academic year or only to the beginning of the term?**

Eligibility for Direct Loan Program or FFEL Program loans is retroactive to the beginning of the academic year during which the borrower regained Title IV eligibility.

- 11. Does the rule described in Q&A #10 also apply in situations where a borrower was initially ineligible for reasons related to citizenship status, ability to benefit, or satisfactory academic progress, but regains eligibility during the academic year?**

Yes. However, in the case of a borrower who was initially ineligible for Title IV assistance due to failure to meet satisfactory academic progress standards, your school may have a policy that provides for reinstatement of eligibility at a later date.

- 12. How do we verify that a borrower who was in default on a Title IV loan has regained eligibility by making satisfactory repayment arrangements or through consolidation of the defaulted loan?**

If the National Student Loan Data System (NSLDS) has been updated by the loan holder, the NSLDS Financial Aid History section of the Institutional Student Information Record (ISIR) or Student Aid Report (SAR) and the NSLDS on-line Financial Aid Transcript (FAT) screens will indicate that the borrower has made satisfactory repayment arrangements on a defaulted loan (loan status code "DX"), or that the defaulted loan has been paid in full through consolidation (loan status code "PC"). If this information is not shown, before disbursing any student aid you must obtain a written statement from the holder of the defaulted loan indicating that the borrower has made satisfactory repayment arrangements (that is, six consecutive, voluntary, on-time, reasonable and affordable monthly payments) or that the loan was paid in full through consolidation.

- 13. If we disburse Direct Loan funds before the first day of classes and the student withdraws or is expelled before that date, or otherwise fails to attend classes during the period for which the loan is attended, who is responsible for returning the loan money to the Department?**

You must return any loan proceeds that were credited to the student's account. If you disbursed loan proceeds directly to the borrower, you must also return the amount of any payments that the borrower made to the school, up to the amount of the loan proceeds that were given to the borrower.

You should notify the Direct Loan Servicing Center of the amount of any loan proceeds that you gave directly to the borrower (or to the student, in the case of a Direct PLUS Loan) and did not return to the Department. The Department will send a letter to the borrower requiring the return of those funds.

- 14. A parent would like to apply for a Direct PLUS Loan, but does not want to provide a Social Security Number. Is there an alternative identifier that we can use to originate a PLUS loan for this borrower?**

No. Except for students who are citizens of certain Pacific islands, the law requires all individuals to provide a valid Social Security Number in order to receive any Title IV aid, including Direct PLUS Loans. You may not originate a PLUS loan for this borrower without the borrower's Social Security Number.

EXIT COUNSELING

- 15. What is the earliest date that we may conduct exit counseling? When exit counseling sessions for graduating students are scheduled immediately before graduation, many students do not attend because they are busy with other activities.**

The Direct Loan and FFEL program regulations require schools to conduct exit counseling "shortly before" a borrower ceases at least half-time study. This may be no earlier than immediately before the borrower's final loan disbursement before the borrower leaves the institution. However, a school that chooses to conduct exit counseling at this time may not withhold final disbursements from students who fail to attend the counseling.

LOAN LIMITS

- 16. A student who is enrolled in a graduate program is taking a combination of graduate and undergraduate courses during the same academic year. The undergraduate-level courses are part of the requirements for the graduate degree. Based on the number of hours in the graduate-level courses alone, the student's enrollment status would be considered less than half-time. For what annual loan limit is the student eligible? Graduate/professional, or fifth-year undergraduate?**

In both the Direct Loan and FFEL programs, as long as a student has been admitted into a graduate/professional program and is enrolled at least half-time in courses that count toward the graduate/professional degree (even if some of these courses are at the undergraduate level), the student is eligible for the graduate/professional annual loan limit. In other words, it is not necessary for the student to be enrolled at least half-time in *graduate/professional-level* courses in order to receive the higher annual loan limit.

17. Are loan amounts that a student received for graduate study counted toward the student's undergraduate aggregate loan limit?

No. For example, if a student who previously received undergraduate and graduate degrees returns to school to complete a second undergraduate program, only Direct Loan Program or FFEL program loans that the student received for the first undergraduate program are included in determining the student's remaining loan eligibility for the second undergraduate program. If the total amount received for the first undergraduate program does not exceed the undergraduate aggregate loan limits, the student may receive additional funds for the second program, up to the undergraduate limits.

Although loans received for graduate study are not counted toward a student's undergraduate aggregate loan limit, the combined loan amounts received for undergraduate and graduate programs may not exceed the total allowable aggregate loan limits.

Example: An independent student received the following loan amounts for a first undergraduate program and a graduate program:

First undergraduate program:	Graduate program:
\$20,500 subsidized	\$45,000 subsidized
\$10,000 unsubsidized	\$40,000 unsubsidized

The student has now enrolled in a second undergraduate program. Only the loans received for the first undergraduate program are counted toward the student's *undergraduate* aggregate loan limit. Since the total amount received for the first undergraduate program (\$30,500) does not exceed the aggregate loan limit for an independent undergraduate (\$46,000, maximum \$23,000 subsidized), the student has remaining loan eligibility of up to \$15,500 for the second undergraduate program. However, the loans received for the graduate program must be considered in determining whether the student has exceeded the *total* aggregate loan limits. In this case, the total subsidized amount already received (\$65,500) is the maximum subsidized amount that a student may receive for undergraduate and graduate study combined. Therefore, the student may receive only unsubsidized loans for the second undergraduate program.

18. If interest on a subsidized or unsubsidized loan accrues and is capitalized (added to the loan principal), does the capitalized interest count toward a borrower's aggregate loan balance for purposes of determining eligibility for additional loans in the Direct Loan and FFEL programs?

No. In determining whether a borrower has reached the aggregate loan limit, only the unpaid principal balance from the original loan amount is counted. Any portion of a borrower's outstanding principal balance that is the result of capitalized interest should be excluded.

19. Is there any limit to the number of times that we can give a student the maximum annual loan amount at a particular grade level without the student progressing to a higher grade level?

There are no federal requirements in the Direct Loan or FFEL programs that limit the number of times a student may receive the maximum loan amount at the same grade level, *as long as the student meets all eligibility requirements (including satisfactory academic progress)* and at least an academic year has elapsed before the student receives another loan. However, you may establish a policy that limits the number of times a student can receive the maximum annual loan amount for a particular grade level. (For example, you could allow students to receive the second-year undergraduate annual loan limit only once.) Such a policy must be the same for all students in the same program and may not be applied on a case-by-case basis.

20. Do loan amounts that a borrower receives for preparatory coursework or a teacher certification program count toward the borrower's annual loan limit?

Yes. For example, if a student receives loan funds for preparatory coursework during the fall semester of a fall-spring academic year and then enrolls in a graduate program during the spring semester, the amount received for the preparatory coursework must be subtracted from the graduate student annual loan limit in determining the maximum amount that the student is eligible to borrow for the spring term.

21. Do amounts borrowed for preparatory coursework or a teacher certification program (see Q&A #20) count toward a borrower's undergraduate or graduate aggregate loan limits?

The undergraduate aggregate loan limits apply. For example, a dependent undergraduate who has already borrowed \$21,000 for undergraduate study could receive no more than \$2,000 in additional loans for preparatory coursework or a teacher certification program.

22. If a borrower qualifies only for a very low subsidized loan amount, are we required to originate a Direct Subsidized Loan for that amount before originating a Direct Unsubsidized Loan?

In both the Direct Loan and FFEL programs, if a student is eligible for \$200.00 or less in subsidized loan funds, you may choose not to give the student a subsidized loan and instead may include that amount as part of an unsubsidized loan.

23. Can we ever refuse to originate a Direct Loan or originate a loan for an amount that is less than the student is eligible to receive?

You may take either action only if you—

- document the reason for the action and provide it to the borrower in writing,
- take such actions only on a case-by-case basis,
- retain documentation that supports the action in the student's file, and
- do not take such actions based on the borrower's race, gender, color, religion, national origin, age, disability status, or income.

The same policy applies in the both the Direct Loan and FFEL programs.

24. Can we calculate loan amounts on the basis of enrollment status? For example, could we have a policy that prohibits half-time students from receiving more than one-half of the applicable annual loan limit?

Can we calculate loan amounts on the basis of the length of the academic year attended by a student? For example, could we have a policy that limits students who are enrolled for only one quarter to no more than one-fourth of the applicable annual loan limit?

Can we limit loan amounts to institutional charges only?

You may not have a *general policy* that limits loan amounts on the basis of enrollment status or the length of period attended, or that limits loans to amounts needed to cover institutional charges. For example, you may not establish policies that reduce loan eligibility for all borrowers who are enrolled less than full-time or who are enrolled for a single term that is *not* a final period of study (that is, if a borrower will not graduate or complete the requirements of the program at the end of that term). Borrowers who are enrolled less than full-time or for a single term may be eligible to receive up to the full applicable annual loan limit, depending on cost of attendance, estimated financial assistance, and expected family contribution.

You may offer aid packages that do not include loans, as long as you notify students that loans are available. Further, you may refuse to originate a loan or may originate a loan for an amount less than a borrower is eligible to receive *on a case-by-case basis*—see Q&A #23. Because you may do this only on a case-by-case basis, you may not have a policy that automatically reduces loan eligibility for *all* borrowers (or for a group of borrowers) who are enrolled on a less than full-time basis or attending less than a full academic year.

25. Is proration required for loans made to students who are enrolled in preparatory coursework or taking courses required for teacher certification?

No. Proration requirements apply to loans made to students who are:

- enrolled in a *program* that is shorter than an academic year, or
- enrolled in a *program* that is one academic year or longer, but in a final period of study that is shorter than an academic year.

MASTER PROMISSORY NOTE (MPN)

Canceling an MPN

26. Can a school contact the Department (for a Direct Loan Program loan) or lender (for a FFEL Program loan) on a borrower's behalf to cancel the borrower's authorization for subsequent loans to be made under an MPN?

No. In both the Direct Loan and FFEL programs, a request to cancel the authorization for subsequent loans to be made under an MPN must come from the borrower, and must be in writing. In the Direct Loan Program, the borrower may submit the written request to the Department or to the borrower's school. If the borrower submits the written request to the school, the school must forward the request to the Department. In the FFEL Program, the borrower must submit the written request to the lender.

Confirmation

27. Can we have different confirmation processes for different groups of borrowers who are receiving second or subsequent loans under an MPN? Or do we have to use the same confirmation process for all borrowers?

Generally, we believe that schools (in both the Direct Loan and FFEL programs) should use the same confirmation process for all borrowers. However, we recognize that in some cases a school may want to establish more than one confirmation process in order to accommodate existing administrative procedures, or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students.

For example, if your school has a policy that requires undergraduates (but not graduate students) to participate in individual counseling sessions before they receive financial aid, it would be reasonable for you to use the individual counseling sessions to meet the confirmation requirement for your undergraduate borrowers, and to establish a different confirmation process for your graduate student borrowers.

28. What must we do to comply with the regulations requiring that we document the confirmation process or processes established for borrowers who are receiving second or subsequent Direct Loan Program loans under an MPN?

You must retain in paper or electronic format a description of the confirmation process or processes in effect for each academic year in which your school makes

second or subsequent loans under an MPN. Ideally, you would include these descriptions in a student handbook or other publication that explains your financial aid policies to students. You do not have to include descriptions of your confirmation process(es) in individual borrower files.

If a borrower challenges the enforceability of a second or subsequent loan made under an MPN, you will be required to submit to the Department in paper or electronic format the description of the confirmation process or processes that were in effect for the academic year in which the loan was made.

29. How long are we required to keep confirmation process documentation (see Q&A #28)?

There is no limit to the length of time you must retain this documentation. That is, you must keep documentation of your confirmation process(es) indefinitely.

Loan adjustment/disbursement

30. For a loan made under a Direct Loan MPN, can we adjust the original loan amount upward after the end of the loan period and then make a late disbursement of the additional amount? Or would the upward adjustment be considered the equivalent of originating a new loan, and therefore something that must be done before the end of the loan period?

In order to make a late disbursement of a Direct Loan Program loan, you must have created the electronic origination record for that loan before the end of the loan period. Making an upward adjustment to the original amount of a loan made under an MPN is not considered to be the origination of a new loan. Therefore, you can adjust the loan amount upward after the end of the loan period and make a late disbursement of the increased amount if you created the electronic origination record for the loan you are adjusting before the end of the loan period. Of course, all of the regular late disbursement rules apply, including the prohibition against making a late second or subsequent disbursement unless the student completed the program or the period of enrollment for which the loan was intended.

The same policy applies to FFEL Program loans made under an MPN. That is, you may increase the original loan amount after the end of the loan period as long as the loan you are adjusting was made before the end of the loan period.

Example: At the beginning of the academic year, you originated a fall-spring loan for \$3,000. The student completed both terms and then, shortly after the end of the loan period, you determined that the student was eligible for an additional \$500. Since you created the electronic origination record for the loan before the end of the loan period, you may now adjust the loan amount upward and make a late disbursement of the additional \$500 within 90 days after the end of the loan period.

31. When we make an upward adjustment to the amount of a loan made under an MPN after one or more disbursements have already been made, how should we disburse the increased loan amount? In one installment? Or must the additional funds be disbursed in more than one installment?

Although the MPN allows you to adjust the original loan amount upward without originating a new loan and having the student sign another MPN, the rules for disbursing additional loan funds have not changed. In most cases, you will disburse the additional loan funds in essentially the same way that you did in comparable situations before the introduction of the MPN. The four examples below show how you would disburse an increased loan amount in various scenarios.

Example 1:

- You originate a fall-spring loan for \$3,500 and make the first of two scheduled disbursements at the beginning of the fall term.
- At the beginning of the spring term, the student progresses from grade level 2 to grade level 3 and becomes eligible for an additional \$2,000.
- Because the student did not progress to grade level 3 until the spring term, the additional eligibility is *for the spring term only*. You must disburse the increased loan amount in two substantially equal installments during the spring term. You do this by adjusting the second disbursement upward by \$1,000 and making a new third disbursement of \$1,000 at the midpoint of the spring term.

Example 2:

- A student is eligible to receive \$5,500 for a fall-spring loan, but wants to borrow only \$4,500. You originate a fall-spring loan for the lower amount requested by the student and make the first of two scheduled disbursements at the beginning of the fall term.
- At the beginning of the spring term (before you have made the second disbursement), the student requests the additional \$1,000.
- The student was eligible for the additional \$1,000 for the entire fall-spring loan period and could have received half of that amount as part of the first disbursement that was made at the beginning of the fall term. Since the fall term has now elapsed, you may disburse the additional loan amount in a single installment by adjusting the second disbursement upward by \$1,000.

Example 3:

- You originate a fall-winter-spring loan for \$3,000 and make the first of three scheduled disbursements at the beginning of the fall term.
- Later during the fall quarter (after you have made the first disbursement), the student's loan eligibility increases by \$1,200.
- You must disburse the additional \$1,200 in three substantially equal installments. You do this by making a new disbursement of \$400 in the fall quarter, and then adjusting the remaining two disbursements upward by \$400 each.

It is important to remember that you must process the additional \$400 as a new disbursement and not as an adjustment to the first disbursement that was made at the beginning of the fall term, since the student did not actually receive the additional funds on the date of the first disbursement.

Example 4:

- You originate a fall-only loan for a student who does not plan to attend during the spring term of a fall-spring academic year.
- At the beginning of the spring term, after you have fully disbursed the fall-only loan, the student decides to enroll for spring and requests another loan.
- You change the loan period from fall-only to fall-spring, increase the loan amount, and disburse the additional funds that the student is eligible to receive for the remainder of the academic year in a single installment.

General promissory note issues

32. Can we submit an MPN to the Loan Origination Center if the note has been signed by a disabled borrower whose signature is simply an “X”?

The Direct Loan Program regulations require you to provide the Department with a signed, legally enforceable MPN. You may submit an MPN signed with an “X” only if you ensure that the note is legally enforceable in accordance with applicable state law. If applicable state law requires “X” signatures to be notarized, you must have the MPN notarized before sending it to the Loan Origination Center. You must also include a note of explanation with the MPN indicating that the signature is that of the borrower and that you have complied with applicable state law.

33. Can a person with the power of attorney for a borrower sign a Direct Loan MPN?

Yes. However, if the individual with the power of attorney signs the MPN, you must obtain written authorization from the borrower to apply the loan directly to the borrower’s account at the school. If there are any remaining funds, you must provide those funds to the borrower by check or other means requiring the borrower’s endorsement or authorization.

In addition, you must provide the Loan Origination Center with a copy of the power of attorney document. A photocopy or fax is acceptable—the Loan Origination Center does not require the original power of attorney document.

34. Can a borrower sign a Direct Loan MPN after the loan period has ended?

Yes. However, you must (1) have originated the loan while the borrower was enrolled and eligible, (2) have a signed MPN before disbursing any funds, and (3) make any late disbursement within 90 days after the end of the loan period (or, if the student does not complete the loan period, within 90 days after the date the student ceased to be enrolled at least half-time).

ORIGINATION/DISBURSEMENT

- 35. A school can make a late disbursement of a Direct Loan Program or FFEL Program loan within 90 days after the end of the loan period. Is there a similar provision that allows a school to originate a Direct Loan Program loan or certify a FFEL Program loan within a certain number of days after the end of the loan period?**

No. A loan must be originated or certified while the borrower is enrolled and eligible. This means that a school must originate or certify the loan before the end of the loan period or, if the student does not complete the loan period, before the student ceases to be enrolled at least half time.

- 36. What is the date of loan origination for a Direct Loan?**

The date of loan origination (comparable to the loan certification date in the FFEL Program) is the date that you complete the “process/originate” function in EDEExpress, or the equivalent function if you use your own software. (The date of loan origination is *not* the same as the loan origination record “creation date” generated by EDEExpress after you have entered borrower/student data items.) It is not necessary to transmit a loan origination record to the Loan Origination Center in order for a Direct Loan to be considered originated—the date of loan origination is recorded in the EDEExpress software.

- 37. Is a school required to make late disbursements?**

No. In both the Direct Loan and FFEL programs, a school is not required to make late disbursements if it does not want to do so.

- 38. When making a late disbursement, may we disburse the full original disbursement amount?**

Not in all cases. You may make a late disbursement of a Direct Loan Program loan or FFEL Program loan for an amount equal to the student’s documented educational costs for the time the student was enrolled. (Note that educational costs include both institutional and noninstitutional expenses.) In some instances, such as when making a late disbursement to a student who has withdrawn, you must reduce the original disbursement amount because it exceeds the student’s educational costs for the time the student was enrolled.

- 39. Can we make late disbursements to cover unpaid institutional charges only?**

Yes, but only on a case-by-case basis. Refer to Q&A #23 for guidance on the conditions under which you may give a student a loan for an amount less than the student is eligible to receive. The same policy applies in both the Direct Loan and FFEL programs.

- 40. Can we make a disbursement to a student who is on an approved leave of absence?**

In both the Direct Loan and FFEL programs, you may make a late disbursement to a student who is on an approved leave of absence if the loan was originated or certified

before the beginning of the leave of absence. All regular late disbursement requirements apply, including the requirement that the amount disbursed may not exceed the student's educational costs for the period when the student was enrolled and eligible. In addition, you may not make a late second or subsequent disbursement. See 34 CFR 668.164(g).

41. Can we originate a Direct Loan Program loan or certify a FFEL Program loan while a student is on an approved leave of absence?

Yes, but only for a period of enrollment that will follow the student's return from the leave of absence. That is, the loan period may not include the leave of absence or a period of time before the leave of absence.

42. After a student returns from a leave of absence, can we originate or certify a loan with a loan period that includes the entire academic year?

When a student returns from a leave of absence, you may originate or certify a loan for either the remaining portion of the academic year or the full academic year. If the loan is for the full academic year, you may not include expenses related to the period of the leave of absence in the student's cost of attendance.

PLUS LOANS

43. Is a stepparent eligible to receive a Direct PLUS Loan?

In both the Direct Loan and FFEL programs, a stepparent may receive a PLUS loan if the stepparent's income and assets were, or would have been, taken into account when calculating a dependent student's expected family contribution. For the Direct Loan Program regulations, see 34 CFR 685.200(b)(2); for the FFEL Program regulations, see 34 CFR 682.201(b)(2).

44. Does the 30-day delayed disbursement requirement apply to PLUS loans obtained on behalf of first-time first-year borrowers?

No. This requirement applies only to Direct Loan and FFEL program subsidized and unsubsidized loans made to student borrowers.

45. Can a student be an endorser on a PLUS loan?

No. To promote sound borrowing practices, the Department does not permit students to serve as endorsers on PLUS loans in the Direct Loan or FFEL programs.

46. Can someone who is not a U.S. citizen or national, permanent resident, or eligible non-citizen serve as an endorser on a PLUS loan?

No. Because an endorser might potentially be required to assume responsibility for repaying a PLUS loan, he or she must be someone who can reasonably be expected to be in the United States for other than temporary purposes. For this reason, the Department requires an endorser (in both the Direct Loan and FFEL programs) to meet the same citizenship and residency requirements as a borrower. That is, an endorser must be a U.S. citizen or national, permanent resident, or eligible non-citizen.

47. What are we required to do if we unknowingly make a Direct PLUS Loan disbursement after the date of the PLUS borrower's death?

Direct Loan funds may not be disbursed after the death of the borrower. Because Direct PLUS Loan funds are generally applied to the student's school account rather than disbursed to the borrower, it is possible that a school may make a PLUS loan disbursement without knowing that the parent borrower has recently died. When the Direct Loan Servicing Center learns that a Direct PLUS Loan borrower has died, it will immediately notify you of any PLUS disbursements that were made after the date of the borrower's death. You should work with the Direct Loan Servicing Center to resolve the situation.

PROGRAM PARTICIPATION

48. Is it true that schools may no longer award "additional" Direct Unsubsidized Loan amounts to dependent undergraduates on the basis of the school's decision not to participate in the Direct PLUS Program. If so, when does the new policy take effect?

This is correct. We have reconsidered our previous policy as a result of discussions that took place during the negotiated rulemaking sessions that were held in 1999 to develop regulations implementing the Higher Education Amendments of 1998.

In both the Direct Loan and FFEL programs, a school may no longer award "additional" unsubsidized loan funds to a dependent undergraduate based on the school's decision not to participate in the Direct or Federal PLUS programs. The new policy is in effect for any loan period that begins on or after July 1, 2000.

49. Can we choose to participate in the Direct Subsidized Loan Program, but not in the Direct Unsubsidized Loan Program?

Yes. The Department's previous policy required schools that participate in the Direct Loan or FFEL programs to make both subsidized and unsubsidized loans available to all eligible students. However, as a result of changes made by the Higher Education Amendments of 1998, the law now provides that a school may choose whether it will participate in any of the individual loan programs (subsidized, unsubsidized, or PLUS). This means, for example, that you may choose to offer only subsidized loans to your students.

50. Can we establish a policy of not making additional unsubsidized funds available to dependent students whose parents are ineligible for Direct PLUS Loans?

No. If you participate in the Direct Unsubsidized Loan Program or the unsubsidized Federal Stafford Loan Program, you may not have a policy that prohibits otherwise eligible dependent students from receiving additional unsubsidized funds. Both the law and federal regulations provide that dependent students whose parents are ineligible for PLUS loans may borrow additional unsubsidized amounts at the higher annual loan limits normally available only to independent undergraduates.

51. We offer only Direct Loan Program loans to our student and parent borrowers. Can we refuse to certify a FFEL Program loan for a borrower who requests a loan through that loan program rather than through the Direct Loan Program?

Yes. If your school has chosen to participate only in the Direct Loan Program or only in the FFEL Program, there is no federal requirement that prohibits you from refusing to make loans from the other loan program available to your student and parent borrowers.

An institution that participates in both loan programs may provide loans through either program to certain groups of borrowers (for example, graduate students or students attending a particular campus) or to individual borrowers. However, a school that participates in both programs is not *required* to offer each borrower at that institution a choice of a Direct Loan or a FFEL Program loan.

52. We are switching from the FFEL Program to the Direct Loan Program and want to make summer term Direct Loans to students who received FFEL Program loans for the immediately preceding fall and spring terms. We treat the summer term as a trailer. Is this permissible?

Yes, as long as there is no overlap in the loan periods. The law prohibits borrowers from receiving loans through both programs for the same loan period. Of course, you must include any FFEL Program loan amounts that a borrower received when determining the borrower's remaining loan eligibility for the summer trailer.